

Introduction

Purpose

This handbook provides a step by step approach to understanding and preparing financial analysis for the life cycle management of Class VI Automated Information Systems (AIS). With today's limited budgets, financial analysis provides a tool to evaluate alternatives in a structured way to ensure that cost effective alternatives are implemented. This handbook provides the framework to prepare financial analyses to support the life cycle management of Class VI AIS as defined in ER 25-1-2.

Scope

This handbook applies to all HQUSACE/OCE staff elements, Major Subordinate Commands (MSC), Districts, Laboratories, and Field Operating Activities (FOA) having an interest in any phase of development, operation, or management of Class VI systems.

This handbook does not apply to AIS over 2.5 million dollars (Class I - V). Life cycle management requirements for Class I - V systems must comply with AR 25-3 "Army Life Cycle Management of Information Systems," dated 27 Nov 94.

Classes of Automated Systems

There are six classes of information systems categorized by program cost, shown in Figure 1-1. Program costs include all costs incurred from project initiation through full deployment of the system to each opera-

tional site. All information systems fall under one of these six classes. Associated with each of the classes are levels of approval authority and management responsibility. The approval authority, degree of management oversight, and documentation requirements differ for each class to ensure that each class receives appropriate management oversight. The requirements for each system class can be found in AR 25-3. The U.S. Army Corps of Engineers (USACE) is responsible for the approval and program management of automation resources classified as Class VI systems to include the preparation of any evaluation and implementation guidelines, program execution and internal review. In accordance with ER 25-1-2, Class VI systems further divide, based on program cost, into three additional system classes (VI(a), (b), (c)). Associated with each subdivision of the Class VI system is a corresponding required level of financial analysis to support program definition and evaluation. Table 1-1 shows the three categories of Class VI systems, the program cost for each Class, and the financial analysis required to support the system.

Financial analyses support the evaluation of alternative investment decisions based on cost considerations. The financial justification for a project becomes more complex as the expected program cost increases. Systems with program costs less than 250 thousand dollars must prepare a budget analysis to ensure the chosen alternative can be funded. Systems with program costs greater than 250 thousand dollars require the preparation of an economic analysis.

Table 1-1

System Class	Program Cost	Financial Analysis
VI(a)	\$1M to \$2.5M	Economic Analysis
VI(b)	\$250K to \$1M	Economic Analysis
VI(c)	\$50K to \$250K	Budget Analysis

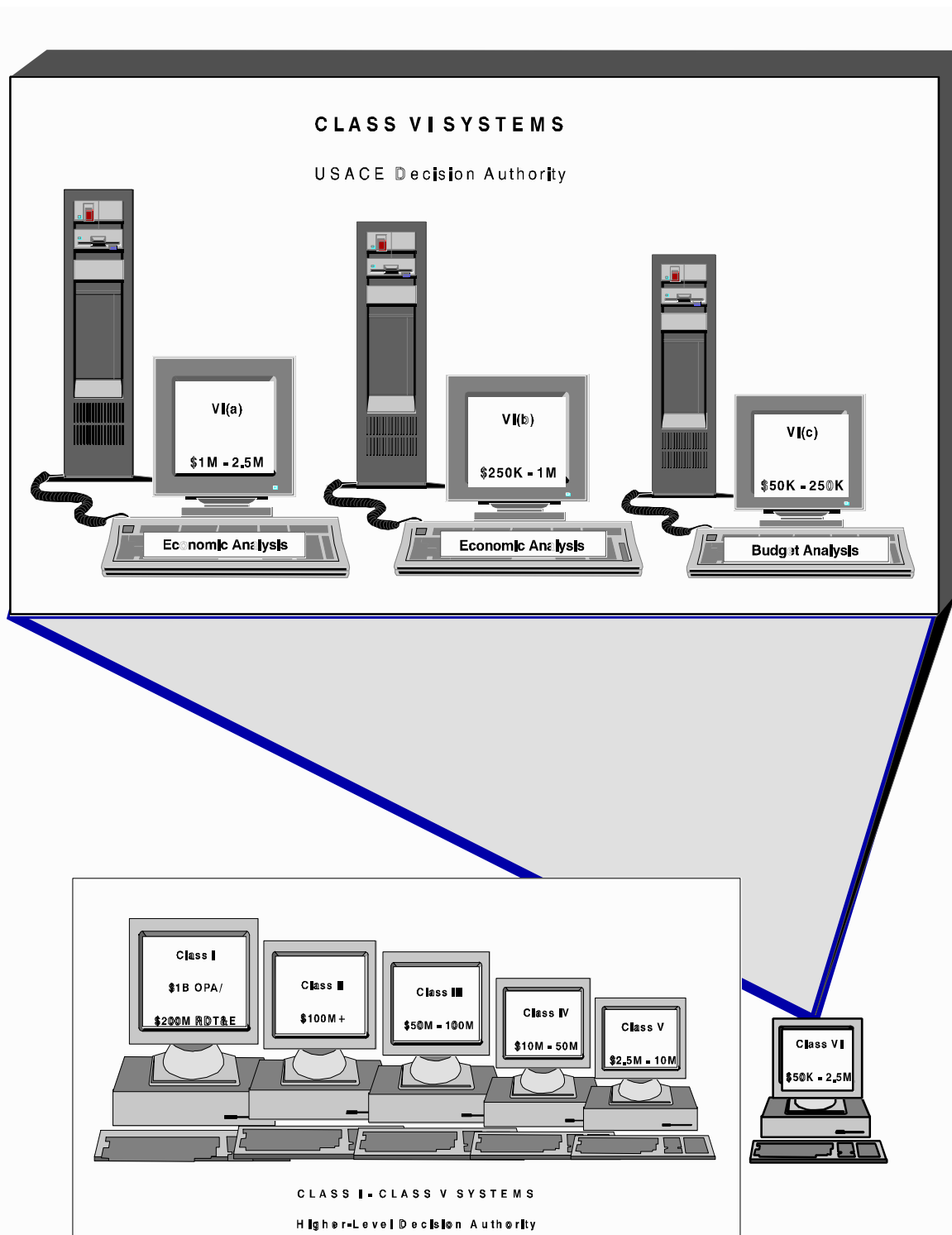


Figure 1-1

sis to ensure cost effective alternatives are being pursued. For systems with program costs below 50 thousand dollars, an analysis is not required and system selection remains at the discretion of management. The different subclasses and guidelines are illustrated in Figure 1-2.

Format of the Handbook

This handbook incorporates guidelines covering each level of financial analysis. *Section 2* provides guidance on how to prepare a budget analysis for Class VI(c) systems with program costs between \$50K to \$250K. *Section 3* provides guidance on how to

prepare an economic analysis for a Class VI(b) system (program costs between \$250K and \$1M) and a class VI(a) system (program costs between \$1M and \$2.5M). Depending upon the likely range of program cost, an analyst can select the appropriate guidelines for the level of analysis required, and use them to structure and present the analysis. *Section 4* of the handbook provides references for further reading, a summary of the Department of Defense's concept of functional economic analysis (FEA; currently undergoing internal review), and additional information for performing financial analyses. *Section 5* of the handbook provides a glossary and index.

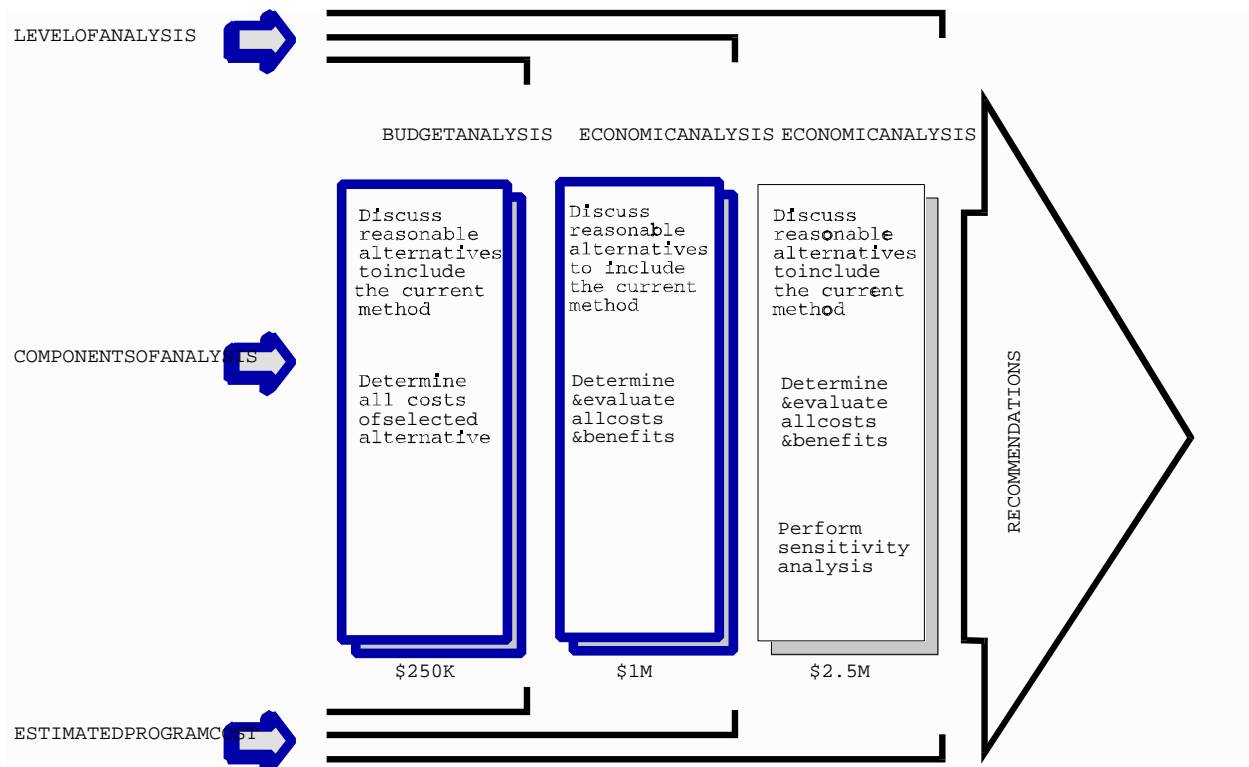


Figure 1-2